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Brazil

Coffee Annual

2010

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Report Highlights:

ATO/Sao Paulo forecasts the marketing year (MY) 2010/11 Brazilian coffee production at 55.3 million 60-kg bags, a 10.5 million bag increase relative to the previous crop (44.8 million bags) due to the on-year of the biennial production cycle of arabica trees and improved robusta production. Coffee exports for MY 2010/11 are projected at 32 million bags, up 10 percent from MY 2009/10, due to expected higher availability. Carry-over stocks for MY 2010/11 are projected at 7.3 million bags, up 3.8 million bags from the previous season.

Commodities:

Coffee, Green

Production:

For the marketing year 2010/2011 (July-June) the Agricultural Trade Office Sao Paulo (ATO) forecasts Brazilian coffee production at 55.3 million bags (60 kilograms per bag), green equivalent, a 23 percent increase relative to the revised figure for MY 2009/10. Information was obtained from government sources, state secretariats of agriculture, producers associations, cooperatives and traders.

Higher production is mainly due to the biennial production cycle of arabica trees, which are in the on-year of the production cycle and are expected to produce 41.8 million bags, up 8.8 million bags relative to previous crop. Excessive rainfall during the second semester of 2009 through March 2010 (except in eastern Minas Gerais) promoted several favorable bloomings from September through November in arabica growing regions as well as good fruit setting and development of the cherries. Brazilian growers conduct only one harvest per year, therefore multiple bloomings might affect to some extent the quality of the crop given that fruit from level of maturity will be harvested at the same time.

In spite of good weather conditions in the second semester of 2009 in robusta growing areas (Espírito Santo, Rondonia and Bahia), as well as good crop management and the use of irrigation in some coffee plantations in Espírito Santo, below-average rainfall in 2010 in that state, negatively affected total robusta production which is forecast at 13.5 million bags, up 1.7 million bags compared to the previous crop

The harvest started in March in the robusta producing regions and in April-May in the arabica growing areas. Post contacts report that a large amount of washed arabica coffee is likely to be produced during this season due to the strong price differential paid for the product (approximately R\$50 per 60-kg bag in early May.)

Post revised upward the MY 2008/09 and MY 2009/10 coffee production estimates to 53.30 and 44.80 million bags, respectively. The dynamics of the Brazilian coffee market supports the upward revision in coffee production for both marketing year, e.g., strong exports, higher domestic consumption and indications of steady decrease in coffee stocks. According to industry sources, over 90 percent of the Brazilian 2009/10 crop has already been marketed and approximately 30 percent of the product shows low quality due to the excessive rainfall during the harvest season.

The table below shows forecast production by state and variety for MY 2010/11, as well as, production estimates for MY 2006/07 to MY 2010/11.

Brazilian Coffee Production (Million 60-kg bags)

State/Variety	MY 06/07	MY 07/08	MY 08/09	MY 09/10	MY 10/11
Minas Gerais	23.70	18.10	26.90	22.10	28.50
Southwest	13.50	9.40	14.90	12.10	16.00
Central-western	4.60	3.20	5.10	4.20	5.50
Southeast	5.60	5.50	6.90	5.80	7.00
Espirito Santo	10.00	10.40	12.10	10.60	12.30
Arabica	2.20	2.20	2.90	2.40	3.10
Robusta	7.80	8.20	9.20	8.20	9.20
Sao Paulo	4.90	3.10	4.90	4.20	5.00
Parana	2.50	2.00	2.70	1.90	2.40
Others	5.60	5.50	6.70	6.00	7.10
Arabica	2.70	2.25	3.10	2.40	2.80
Robusta	2.90	3.25	3.60	3.60	4.30
Total	46.70	39.10	53.30	44.80	55.30
Arabica	36.00	27.65	40.50	33.00	41.80
Robusta	10.70	11.45	12.80	11.80	13.50

Source: ATO/Sao Paulo.

In May 2010, the Brazilian Government (GOB), through the Ministry of Agriculture, Livestock and Supply's (MAPA) National Supply Company (CONAB), released its second survey projecting Brazilian coffee production for MY 2010/11 at 47.04 million 60-kg bags, a 7.57 million bag increase compared to the final estimate for MY 2009/10 (39.47 million bags). CONAB projects arabica production at 35.31 million bags, up 6.44 million bags from the previous crop (28.87 million bags), whereas the robusta crop is estimated at 11.73 million bags, a 1.13 million bag increase relative to MY 2009/10 (10.6 million bags)

The Brazilian Institute of Geography and Statistics (IBGE) has also released its April 2010 coffee production forecast for MY 2010/11. IBGE projects production of 2.698 million metric tons of coffee, or 44.97 million 60-kg coffee bags, up 4.42 million bags relative to MY 2008/09 (2.433 million tons or 40.55 million bags).

Coffee Area Tree Inventory

The table below shows the Brazilian coffee area and tree population from MY 2006/07 through MY 2010/11.

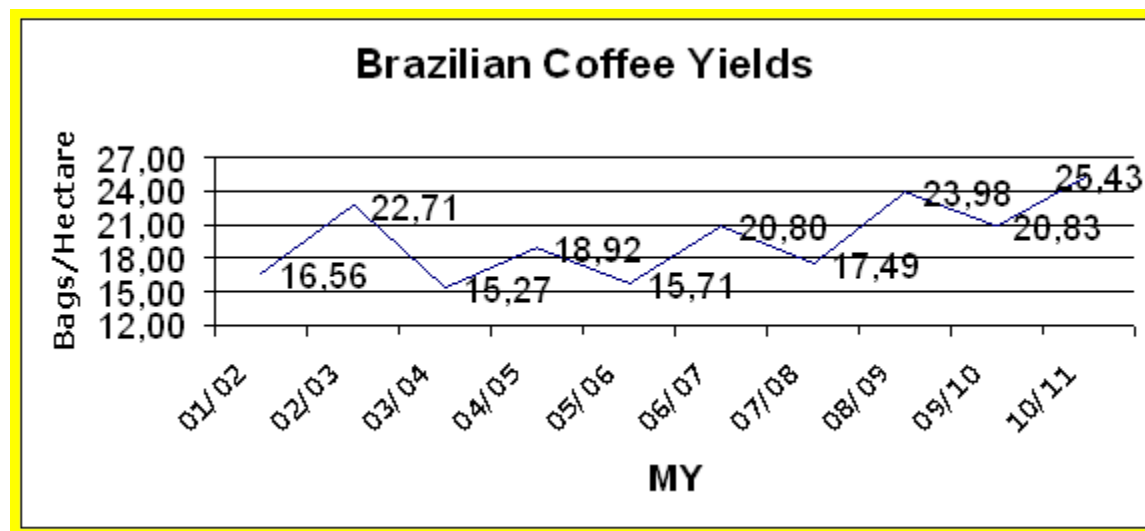
Brazilian Coffee Area and Tree Population (billion trees, million hectares, thousand trees/hectare)					
	MY 06/07	MY 07/08	MY 08/09	MY 09/10	MY 10/11

Total Trees	6.293	6.399	6.567	6.598	6.635
Non-Bearing	563	679	677	873	815
Bearing	5.730	5.720	5.890	5.725	5.820
Total Area	2.431	2.431	2.424	2.395	2.409
Non-Bearing	186	196	201	244	234
Harvested	2.245	2.235	2.223	2.151	2.175
Trees/ha	2.589	2.632	2.710	2.755	2.754
Non-Bearing	3.030	3.468	3.368	3.578	3.483
Bearing	2.552	2.559	2.650	2.662	2.676

Source; ATO/Sao Paulo

Yields

The Brazilian coffee yield for MY 2010/11 is forecast at 25.53 bags/hectare, a 23 percent increase compared to previous crop (20.83 bags/ha.), mainly due to the on-year of the biennial arabica cycle.



Coffee Prices in the Domestic Market

The table below shows the Coffee Index price series released by the University of Sao Paulo's Luiz de Queiroz College of Agriculture (ESALQ). The series tracks coffee prices in the domestic spot market since September 1996. Note that coffee prices have increased during MY 2009/10 both in the local currency, the Real, as well as in U.S. dollars (US\$ 135.84/bag in May 2009 vis-à-vis US\$ 163.05/bag in April 2010), due to the lower availability of the product.

Preliminary figures show that coffee growers sold over 1.5 million bags to CONAB through the Coffee Option Contract Program set by the Brazilian government in 2009. A total of 3 million bags were auctioned and the delivery prices set at the auction (roughly around R\$ 300.00/bag depending on the delivery date) were all above market prices, thus encouraging growers to exercise the option.

Post contacts report that a greater volume could have been sold if growers had met the quality standards required by the contract. However, a significant amount of the product was negatively affected by excessive rainfall during the harvest, thus depreciating the quality of the beans. Growers also reported logistic issues related to the limited capacity of the government

warehouses, close to the coffee regions; which led producers to deliver the product in more distant warehouses, thus increasing transportation costs.

Arabica Coffee Prices in the Domestic Market (Real, 60kg/bag).					
Month	2006	2007	2008	2009	2010
January	291.50	281.63	267.84	268.41	280.75
February	269.75	267.66	285.19	269.34	278.68
March	254.44	252.72	263.28	262.48	279.70
April	248.82	238.88	256.35	260.10	282.18
May	234.86	232.20	254.84	268.02	283.92
June	224.58	240.80	255.76	256.64	--
July	218.16	238.63	250.51	247.50	--
August	232.82	254.54	248.86	255.34	--
September	233.47	259.15	261.58	254.29	--
October 1/	235.12	255.84	256.84	262.20	--
November	269.13	245.82	261.28	272.55	--
December	291.35	261.28	262.04	281.57	--

Source: CEPEA/ESALQ/USP. 1/ May 2010 refers to May 10.

Consumption:

Total Brazilian domestic consumption for marketing year 2010/11 is projected at 19.5 million coffee bags (18.47 million bags of roast/ground and 1.03 million bags of soluble coffee, respectively), a 4 percent increase relative to the previous MY, reflecting the newest domestic consumption survey released by the Brazilian Coffee Industry Association (ABIC).

Brazilian consumption during MY 2009/10 is estimated at 18.75 million 60-kg bags, green equivalent, up 4 percent compared to MY 2008/09 (18.03 million bags). Roast and ground coffee consumption is likely to account for 17.73 million bags, whereas soluble consumption is estimated at 1.02 million bags. Estimates are based on periodic surveys conducted by ABIC, reflecting population growth, increased per capita consumption, increased purchasing power, and the effects of domestic campaigns to promote coffee consumption.

ABIC reports that the coffee industry processed 18.39 million bags, green equivalent, from November 2008 to October 2009, up 4 percent compared to the same period the year before (17.66 million bags). Per capita consumption for 2009 is estimated at 4.65 kg of roasted coffee per person, up 3 percent from previous year and similar to coffee consumption in Germany. The aforementioned figures show that the domestic consumption of coffee was not significantly affected by the world financial crisis in late 2008 and during 2009.

ABIC projects total domestic consumption for 2010 at 19.31 million bags, up 5 percent from 2009, assuming relatively stable prices in 2010 as compared to 2009. The average retail coffee price in December 2009 was R\$ 10.49 per kilogram, a relatively small increase of 2.8 percent compared to the beginning of the year (R\$ 10.20 per kilogram in January/2009). Total market sales are estimated at R\$ 6.8 billion in 2009 and projected at R\$ 7.1 for 2010.

If the steady growth in the domestic market remains, the symbolic goal set by ABIC in 2004 to reach a 21 million bag consumption by 2010 will be, in fact, reached in 2012.

ABIC reports the steady upward trend in consumption results from several factors, which include:

- Improved product quality through the creation of the (1) “Coffee Purity Seal” in 1989 to certify the quality of the product manufactured by local roasters and; (2) Coffee Quality Program (PQC) in 2004 which issues the “Quality Stamp” to several local brands and informs the type of bean used and the resulting taste of the product. In addition,

the sustainable Coffee Program (PCS) offers a complete certification guarantee for those who reaches sustainability standards from planting to the cup.

- Steady growth of the market for gourmet, specialty and high quality coffees, attracting more and more young people to the market. The gourmet market, although still representing a small share (3 percent of total domestic consumption), grows at 15 percent per year.
- Improved perception that coffee can bring a healthier life as a result of investments in the Coffee and Health Program.
- Solid economic situation in Brazil, including higher income per capita, higher purchasing power, lower unemployment rates and larger participation of consumers that migrated from lower to higher income classes.

The table below shows domestic ground and soluble coffee consumption as reported by ABIC.

Domestic Ground and Soluble Coffee Consumption (Million 60 kg bags, Kg/year).					
Year	Consumption (Million 60 kg bags)			Consumption/capita (kg)	
	Roast/Ground	Soluble	Total	Roast	Green Beans
2000	12.60	0.60	13.20	3.81	4.76
2001	13.00	0.60	13.60	3.91	4.88
2002	13.30	0.74	14.04	3.86	4.83
2003	12.90	0.80	13.70	3.72	4.65
2004	14.10	0.80	14.90	4.01	5.01
2005	14.60	0.90	15.50	4.11	5.14
2006	15.40	0.93	16.33	4.27	5.34
2007	16.10	1.00	17.10	4.42	5.53
2008	16.68	0.98	17.66	4.51	5.64
2009	17.37	1.02	18.39	4.65	5.81
2010 1/			19.31		

Note: Estimates refer to November-October period.

Exports

Coffee exports for MY 2009/10 were revised upward to 29.08 million 60-kg bags, green beans, an 8 percent drop from the previous marketing year, based on year-to-date export volumes and anticipated May-June loadings. Green bean (arabica and robusta) exports are estimated at 26 million bags, whereas soluble coffee exports are estimated at 3 million bags. Brazil represents over 30 percent of total world exports. Lower supplies from other producing countries have increased the demand for the Brazilian product even during the off-season of the crop (January-April 2010). In addition, Brazil remains competitive in international markets in spite of higher production costs and the steady devaluation of the dollar vis-à-vis the Real.

The table below shows green coffee bean (NCM 0901.11.10), soluble coffee (NCM 2101.11.10) and roasted coffee exports (NCM 0901.21.00) by country of destination, according to SECEX, for CY 2009, MY 2008/09 and 2009/10 (July-March).

Brazilian Green Coffee Exports by Country of Destination (NCM 0901.11.10, MT. US\$ 000 FOB)						
	CY 2009 1/		MY 2008/09 2/		MY 2009/10 2/	
Country	Quantity	Value	Quantity	Value	Quantity	Value
Germany	363,832	845,900	261,444	652,390	277,131	687,940
U.S.A.	322,540	722,286	236,204	571,345	231,599	565,662
Italy	146,773	349,833	143,184	371,722	112,941	293,997
Belgium	119,357	284,677	108,279	274,664	89,648	230,117
Japan	112,139	288,701	92,046	247,198	79,606	221,865
Spain	50,490	114,682	48,866	119,472	35,388	86,678
Sweden	39,666	91,218	31,166	78,493	30,197	74,735
Slovenia	39,754	76,120	46,816	106,582	29,104	59,697
France	41,039	92,447	30,974	74,547	27,062	65,625
Netherlands	24,931	59,785	19,759	51,679	21,468	53,560
Others	378,750	835,618	279,818	673,483	302,863	710,725
Total	1,639,270	3,761,267	1,298,558	3,221,575	1,237,008	3,050,601
Source : Brazilian Foreign Trade Secretariat (SECEX)						

Note : Numbers may not add rounding 1/Jan - Dec - 2/Jul - Mar.

Brazilian Roasted Coffee Exports by Country of Destination	
United States	12.5%
Germany	8.7%
France	7.2%
Italy	6.1%
Japan	5.3%
Canada	4.8%
United Kingdom	3.9%
Spain	3.2%
China	2.7%
India	2.1%
South Korea	1.8%
Sweden	1.5%
Belgium	1.3%
Switzerland	1.1%
Australia	0.9%
Other Countries	15.6%

(NCM 0901.21.00, MT, US\$ 000 FOB)

	CY 2009 1/		MY 2008/09 2/		MY 2009/10 2/	
Country	Quantity	Value	Quantity	Value	Quantity	Value
U.S.A.	2,643	16,926	2,530	14,918	1,489	9,595
Italy	924	3,966	737	3,152	654	2,893
Colombia	814	2,619	0	0	438	1,428
Argentina	196	1,182	254	1,244	174	1,081
Japan	207	1,060	207	1,049	144	789
Sweden	1	3	0	0	109	294
Bolivia	104	377	9	31	99	396
Chile	59	343	17	121	66	396
Uruguay	67	561	29	126	58	227
Paraguay	47	162	37	138	42	139
Others	258	1,848	176	937	258	2,003
Total	5,320	29,047	3,998	21,715	3,530	19,242

Source : Brazilian Foreign Trade Secretariat (SECEX)

Note : Numbers may note add to rounding 1/Jan - Dec 2/Jul - Mar.

Brazilian Soluble Coffee Exports by Country of Destination	
United States	12.5%
Germany	8.7%
France	7.2%
Japan	5.9%
United Kingdom	4.3%
Canada	3.8%
Italy	3.1%
Spain	2.6%
Sweden	2.0%
Belgium	1.8%
Switzerland	1.5%
Australia	1.2%
South Korea	0.9%
India	0.7%
China	0.5%
Others	15.3%

(NCM 2101.11.10 MT, US\$ 000 FOB)

	CY 2009 1/		MY 2008/09 2/		MY 2009/10 2/	
Country	Quantity	Value	Quantity	Value	Quantity	Value
U.S.A.	11,970	66,618	9,372	59,871	8,913	48,122
Russia	7,318	58,865	5,923	48,800	6,960	54,018
Ukraine	4,402	38,666	3,446	31,390	3,823	34,401
Argentina	4,677	23,727	2,742	14,431	3,375	17,835
United Kingdom	4,510	33,232	2,885	22,976	3,081	23,166
Japan	4,038	30,752	3,294	27,658	2,919	21,788
Germany	2,330	13,489	2,366	17,564	2,028	10,786
Canada	2,243	18,251	1,413	12,734	1,796	15,113
Belgium	1,502	11,357	1,234	10,939	1,419	10,892
Singapore	1,929	11,592	1,725	9,876	1,409	8,034
Others	19,882	154,049	15,987	131,779	15,337	118,887
Total	64,799	460,599	50,386	388,017	51,060	363,041

Source : Brazilian Foreign Trade Secretariat (SECEX)

Note : Numbers may not add to rounding 1/Jan-Dec - 2/Jul-Mar

The tables below include data on monthly coffee exports (quantity and value) for MY 2009/10 (July-April), as reported by Brazilian Green Coffee Association (CECAFE) and the Brazilian Soluble Coffee Association (ABICS). Total coffee exports during the July 2009 - April 2010 period were 24.85 million bags, a 7 percent decrease compared to the same period for MY 2008/09 (26.59 million bags). Preliminary data show that coffee export registrations for May 2009 were 860,257 while cumulative green coffee export shipments for May 2008 are 544,020 through May 11.

Brazilian Monthly Coffee Exports for MY 2009/10						
(Thousand 60-kg bag, green equivalent).						
Month	Conillon	Arabica	Roasted	Total Green	Soluble	Total
Jul-09	135.78	1,856.80	16.06	2,008.65	256.40	2,265.05
Aug-09	135.05	2,117.27	10.87	2,263.19	213.35	2,476.54
Sep-09	134.58	2,286.46	7.55	2,428.59	258.63	2,687.22
Oct-09	68.30	2,493.52	5.19	2,567.00	257.45	2,824.46
Nov-09	51.99	2,299.15	2.22	2,353.36	237.73	2,591.09
Dec-09	80.30	2,191.56	6.42	2,278.29	268.83	2,547.12
Jan-10	43.60	2,205.75	3.61	2,252.96	237.66	2,490.61
Feb-10	22.51	2,000.32	7.90	2,030.72	234.57	2,265.29
Mar-10	45.84	2,341.69	4.27	2,391.80	250.26	2,642.06
Apr-10	18.57	1,962.12	4.84	1,985.53	268.95	2,254.48
Cumulative	736.53	21,754.63	68.93	22,560.09	2,483.83	25,043.92

Source: CECAFE and ABICS.

Brazilian Monthly Coffee Exports for MY 2009/10						
(US\$ 1,000,000).						
Month	Conillon	Arabica	Roasted	Total Green	Soluble	Total
Jul-09	12.23	254.58	4.00	270.81	40.63	311.44
Aug-09	12.39	302.36	3.22	317.96	35.69	353.66
Sep-09	13.11	333.56	2.44	349.12	41.44	390.56
Oct-09	6.37	368.61	1.39	376.38	44.47	420.85
Nov-09	4.97	345.40	0.56	350.93	39.30	390.22
Dec-09	7.61	338.37	1.62	347.60	44.67	392.27
Jan-10	4.45	341.41	1.06	346.92	38.44	385.36
Feb-10	2.42	323.39	2.28	328.09	38.27	366.36
Mar-10	4.96	370.48	1.22	376.65	41.50	418.15
Apr-10	1.96	308.32	1.27	311.55	43.20	354.75
Cumulative	70.47	3,286.47	19.07	3,376.01	407.60	3,783.62

Source: CECAFE and ABICS.

Stocks:

ATO/Sao Paulo projects ending stocks for MY 2010/11 at 7.3 million bags, up 3.8 million bags relatively to MY 2009/10, due to expected higher coffee supply.

The 2010 CONAB survey of privately-owned stocks has not been released yet. The survey includes coffee stocks held by growers, coffee cooperatives; exporters, roasters and the soluble industry on March 31st.

On March 25th, the Ministry of Agriculture, Livestock and Supply (MAPA) set the limits of the Coffee Defense Fund (Funcafe) credit lines to finance coffee operations in 2010. According to MAPA resolution #262, a total of R\$ 2.088 billion will be release by Funcafe to finance crop management (R\$ 313 million), harvest (R\$ 522 million), storage (R\$ 940 million) and; the “Coffee Acquisitions Financing” (FAC) operations (R\$ 313 million). The sector complains that the credit lines have not been released yet and reports that this amount is not sufficient to cover operations.

Exchange Rate

Exchange Rate (R\$/US\$1.00 - official rate, last day of period)							
Month	2004	2005	2006	2007	2008	2009	2010
January	2.94	2.62	2.22	2.12	1.76	2.32	1.87
February	2.91	2.60	2.14	2.12	1.68	2.38	1.81
March	2.91	2.67	2.17	2.05	1.75	2.25	1.78
April	2.94	2.53	2.09	2.03	1.69	2.18	1.73
May 1/	3.13	2.40	2.30	1.93	1.63	1.97	1.78
June	3.11	2.35	2.16	1.93	1.64	1.95	
July	3.03	2.39	2.18	1.88	1.57	1.87	
August	2.93	2.36	2.14	1.96	1.63	1.88	
September	2.86	2.22	2.17	1.84	1.92	1.78	
October	2.99	2.25	2.14	1.74	2.12	1.74	
November	2.73	2.21	2.17	1.78	2.33	1.75	
December	2.65	2.26	2.14	1.77	2.34	1.74	

Source : Gazeta Mercantil and BACEN (as of October 2006)
1/ May 2010 refers to May 11.

